

No. 13/20/DPM

Jakarta, August 8, 2011

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS AND INTERMEDIARIES

Subject : Second Amendment to Bank Indonesia Circular
Letter Number 12/18/DPM dated July 7, 2010
concerning Open Market Operation

In relation to Bank Indonesia Regulation Number 12/11/PBI/2010 concerning Monetary Operation (State Gazette of the Republic of Indonesia Year 2010 Number 84, Supplement to the State Gazette of the Republic of Indonesia Number 5141) and in order to optimize the use of Open Market Operation instruments for supporting monetary policies with the final objectives of reaching and maintaining rupiah stability, it is necessary to supplement Bank Indonesia Circular Letter Number 12/18/DPM dated July 7, 2010 concerning Open Market Operation as amended by Bank Indonesia Circular Letter Number 13/13/DPM dated May 9, 2011 as follows:

1. The provisions in Chapter I shall be amended so as to read as follows:

I. GENERAL PROVISIONS

- A. Referred to in this Bank Indonesia Circular Letter as:

1. Monetary Operation shall be the

implementation of monetary policies by Bank Indonesia in the context of monetary management through Open Market Operation and Standing Facilities.

2. Open Market Operation, hereinafter briefly referred to as OMO, shall be transactions in the money market conducted by Bank Indonesia with OMO Participants in the context of Monetary Operations.
3. OMO Participants shall be Banks meeting the requirements to become Monetary Operation participants as referred to in Bank Indonesia provisions concerning the criteria and requirements for Securities, Participants and Intermediaries in Monetary Operations.
4. Bank shall be Commercial Bank as referred to in the applicable Law concerning Banking which conducts conventional business activities.
5. Intermediaries shall be rupiah and foreign exchange money market brokers and capital market brokers appointed by the Minister of Finance of the Republic of Indonesia as primary dealers as referred to in Bank Indonesia provisions concerning the criteria and requirements for Securities, Participants,

and Intermediaries in Monetary Operations.

6. Securities shall be Bank Indonesia Certificate and Sovereign Securities used in OMO transactions as referred to in Bank Indonesia provisions concerning the criteria and requirements for Securities, Participants, and Intermediaries in Monetary Operations.
7. Bank Indonesia Certificate, hereinafter briefly referred to as SBI, shall be securities in rupiah currency issued by Bank Indonesia as acknowledgement of short-term indebtedness.
8. Sovereign Securities, hereinafter briefly referred to as SBN, shall be Sovereign Debt Securities and Sovereign Sharia Securities.
9. Sovereign Debt Securities, hereinafter briefly referred to as SUN, shall be securities in the form of acknowledgement of indebtedness in rupiah currency or foreign currency, the payments of the interest and principal of which are guaranteed by the Government of the Republic of Indonesia, in accordance with the validity period thereof, as referred to in the applicable Law.
10. Sovereign Sharia Securities, hereinafter briefly referred to as SBSN, or may be referred to as Sovereign Sukuk, shall be SBN issued based

on the sharia principles, either in rupiah currency or foreign currency, as proof of participation in SBSN assets as referred to in the applicable Law.

11. Government Bond shall be SUN issued with a period of more than 12 (twelve) months with coupons and/or with discount-based interest payment.
12. Government Treasury Bills, hereinafter briefly referred to as SPN, shall be SUN issued with a period of up to 12 (twelve) months, with discount-based interest payment.
13. Zero Coupon Bond, hereinafter briefly referred to as ZCB, shall be Government Bond issued without any coupon and with discount-based interest payment.
14. Retail Government Bond, hereinafter briefly referred to as ORI, shall be Government Bond which is sold in the primary market to Indonesian individuals or natural persons.
15. Repurchase Agreement Transaction, hereinafter referred to as Repo transaction, shall be Securities sale transaction by an OMO Participant to Bank Indonesia, with a repurchase obligation by the OMO Participant according to the agreed price and within the

agreed period.

16. Reverse Repo Transaction shall be Securities purchase transaction by an OMO Participant from Bank Indonesia, with a resale obligation by the OMO Participant according to the agreed price and within the agreed period.
17. Term Deposit shall be the placement of rupiah funds by OMO Participants for a certain period of time with Bank Indonesia.
18. Outright Transaction shall be a transaction on the sale and purchase of Securities by OMO Participants from Bank Indonesia in an outright manner without any sale and repurchase obligations by the OMO Participants.
19. Demand Deposit Account shall be rupiah a demand deposit account of an OMO Participant with Bank Indonesia.
20. Securities Account shall be a Securities account of an OMO Participant recorded in the active trading account in Bank Indonesia - Scripless Securities Settlement System.
21. Sub-Registry shall be a Bank and institution conducting custodian activities which meet the requirements and are approved by Bank Indonesia to perform the function of Securities

administrator on behalf of customers.

22. Bank Indonesia-Scripless Securities Settlement System, hereinafter briefly referred to as BI-SSSS, shall be a system that provides transaction facilities with Bank Indonesia, including the administration thereof and the electronic administration of securities connected directly among participants, operator and the Bank Indonesia-Real Time Gross Settlement system.
23. Bank Indonesia-Real Time Gross Settlement system, hereinafter briefly referred to as BI-RTGS system, shall be an electronic fund transfer system among the participants of BI-RTGS system in rupiah currency, the settlement of which is conducted in a real time manner per individual transaction.
24. Commercial Bank Daily Reporting System, hereinafter briefly referred to as LHBUS-System, shall be a facility for Banks' reporting to Bank Indonesia on a daily basis, including the provision of money market information and announcements from Bank Indonesia.
25. Transaction on the Sale of Foreign Currencies on Sovereign Securities, hereinafter referred to as Foreign Currency Transaction on SBN, shall

be transaction on the sale of foreign currency against rupiah by Bank Indonesia with the purchase of SBN in an outright manner by Bank Indonesia conducted concurrently.

26. Correspondent Bank shall be a bank with which a demand deposit account is maintained in the context of the payment and/or receipt of foreign currency fund to or from the Bank.

27. Foreign Exchange Bank shall be a Bank obtaining a letter of appointment from Bank Indonesia to conduct banking business activities in foreign currencies.

B. Bank Indonesia, in the context of Open Market Operation, may conduct Liquidity Absorption and/or Liquidity Injection by using one or more instrument(s) either to influence the liquidity in money market or to maintain the availability of monetary operation instruments required in order to reach the operational targets of Bank Indonesia monetary policies.

2. 1 (one) chapter shall be inserted between Chapter V and Chapter VI, namely Chapter VA which shall be read as follows:

V A. Foreign Currency Transaction on SBN

1. Foreign Currency Transaction on SBN shall be conducted in order to support the management of liquidity in reaching the operational targets of monetary policies by using the following methods:
 - a. transaction on the sale of foreign currency against rupiah by Bank Indonesia; and
 - b. transaction on the purchase of SBN in an outright manner by Bank Indonesia, conducted concurrently.
2. The type of foreign currency in a Foreign Currency Transaction on SBN shall be US Dollar.
3. Foreign Currency Transaction on SBN shall be conducted under the following conditions:
 - a. Transaction Method
 - 1) Bank Indonesia shall conduct a Foreign Currency Transaction on SBN by way of tender.
 - 2) The Foreign Currency Transaction on SBN shall be conducted through *Reuters Monitoring Dealing System* (RMDS) facility or other

facilities determined by Bank Indonesia.

- 3) The mechanism used in the tender shall be the auction method of US Dollar exchange rate against rupiah (USD/IDR).
- 4) Bank Indonesia shall determine the price of the SBN price (fixing price) used as the basis of SBN calculation which must be submitted by the participants of the Foreign Currency Transaction on SBN.

b. Announcement and Implementation of Auction

- 1) Foreign Currency Transaction on SBN may be conducted every business day.
- 2) Bank Indonesia shall announce the plan for conducting an auction for Foreign Currency Transaction on SBN by no later than before the window time, through the LHBU System and/or other facilities.
- 3) The Window Time for Foreign Currency Transaction on SBN shall

be from 14.30 Western Indonesia Time up to 15.00 Western Indonesia Time, or such other times as determined by Bank Indonesia.

- 4) The announcement of the plan for an auction of Foreign Currency Transaction on SBN shall include, among other things, the following matters:
 - a) the facilities for submitting the exchange rate offer;
 - b) the auction date;
 - c) the window time;
 - d) the indicative target of the auction including the target of foreign currencies to be sold by Bank Indonesia and the nominal target of SBN to be purchased by Bank Indonesia;
 - e) the type and series of SBN to be transacted;
 - f) the price of SBN;
 - g) the settlement date; and

h) the time limit for the settlement.

c. Auction Participants

- 1) The participants of Foreign Currency Transaction on SBN shall be OMO Participants which are Foreign Exchange Banks.
- 2) The participants of Foreign Currency Transaction on SBN may submit the Foreign Currency Transaction on SBN directly or through an Intermediary.
- 3) The Intermediary shall submit bids for auction for the interest of the participants of Foreign Currency Transaction on SBN.

d. Submission of Bid for Exchange Rate

- 1) The participants of Foreign Currency Transaction on SBN and Intermediaries shall submit bids for auction of Transaction of Foreign Currency against SBN to Bank Indonesia through the RMDS or other facilities determined by Bank Indonesia within the determined window time.

- 2) The submission of bids for the auction of Foreign Currency Transaction on SBN shall include the following information, among other things:
 - a) the name of the participant of the Foreign Currency Transaction on SBN;
 - b) the date of the transaction;
 - c) USD/IDR exchange rate;
 - d) The type, series and nominal value of the SBN; and
 - e) An account number with a Correspondent Bank.
- 3) The bids for the exchange rate auction in the Foreign Currency Transaction on SBN as referred to in point 2) c) may be submitted under the following conditions:
 - a) the bid may be submitted for more than 1 (one) time;
 - b) each bid can only be submitted 1 (one) exchange rate;
 - c) for each bid, the Participants of the Foreign Currency

Transaction on SBN may submit 1 (one) or several types and series of SBN.

- 4) The submission of bids for the nominal value of SBN by the participants of the Foreign Currency Transaction on SBN and Intermediaries shall be in a minimum value of 1,000 (one thousand) units or Rp1,000,000,000.00 (one billion rupiah) and the remaining shall be in a multiple of 100 (one hundred) units or Rp100,000,000.00 (one hundred million rupiah).
- 5) In the event of a correction, the Participants of the Foreign Currency Transaction on SBN and Intermediaries may only submit 1 (one) correction for each bid submitted within the window time of the Foreign Currency Transaction on SBN.
- 6) The correction as referred to in point 5) may be conducted to, among other things, information

on the bid for USD/IDR exchange rate, types, series and nominal value of SBN as well as the account number with a Correspondent Bank.

- 7) The participants of the Foreign Currency Transaction on SBN and Intermediaries shall be responsible for the accuracy of data of the bids submitted to Bank Indonesia.
- 8) The participants of the Foreign Currency Transaction on SBN and Intermediaries shall be prohibited from cancelling the bids which have been submitted to Bank Indonesia.
- 9) In the event that the participants of the Foreign Currency Transaction on SBN and Intermediaries submit bids which are for other than the type and series of SBN received by Bank Indonesia, do not comply with the provisions in point 3) or do not comply with the provisions in point 4) and do not submit any

correction to the bids within the window time of the Foreign Currency Transaction on SBN, such bids shall be declared null and void.

e. Determination of Auction Winner

- 1) Bank Indonesia shall determine the limit of bid for USD/IDR exchange rate acceptable to Bank Indonesia.
- 2) Bank Indonesia shall determine the quantity won in the following manner:
 - a) in the event that the exchange rate submitted by a participant of the Foreign Currency Transaction on SBN is higher than the limit of bid for USD/IDR exchange rate acceptable to Bank Indonesia, the relevant participant of the Foreign Currency Transaction on SBN shall win the auction for the Foreign Currency Transaction on SBN ; or

b) in the event that the exchange rate submitted by a participant of the Foreign Currency Transaction on SBN is equal to the limit of bid for USD/IDR exchange rate acceptable to Bank Indonesia, the relevant participant of the Foreign Currency Transaction on SBN shall win all or a part of the bid for the Foreign Currency Transaction on SBN submitted based on proportionate calculation with a rounding to the smallest nominal value of SBN in the amount of Rp1,000,000.00 (one million rupiah).

An example of the determination and calculation of quantity of the winner of Foreign Currency Transaction on SBN is set out in Appendix 8 which forms an integral part hereof.

- 3) Bank Indonesia may determine that there is no winner in a Foreign Currency Transaction on SBN auction.
- f. Announcement of the Results of Foreign Currency Transaction on SBN Auction
- Bank Indonesia shall announce the results of auction of Foreign Currency Transaction on SBN following the process of auction winner determination by Bank Indonesia, by using the following mechanisms:
- 1) announcing the result of the auction winner determination in its full amount to all participants of the Foreign Currency Transaction on SBN and Intermediaries through the LHBUS System and/or other facilities, among other things, in the form of nominal value of incoming SBN, nominal value of SBN won, nominal value of foreign currency sold by Bank Indonesia and weighted average of USD/IDR exchange rate won.

- 2) providing confirmation to the auction winner individually through the RMDS or other facilities, among other things, in the form of:
 - a) the nominal value of foreign currencies received by the Participants of the Foreign Currency Transaction on SBN;
 - b) the series and nominal value of SBN received by Bank Indonesia;
 - c) USD/IDR exchange rate won;
 - d) value date/settlement date;
 - e) request for Standard Settlement Instruction of the participants of the Foreign Currency Transaction on SBN; and
 - f) request for Demand Deposit Account Number of the participants of the Foreign Currency Transaction on SBN.

g. Settlement of the Foreign Currency Transaction on SBN

- 1) Bank Indonesia shall settle the Foreign Currency Transaction on SBN by no later than 2 (two) business days following the transaction date.

The calculation of the value and the settlement of Foreign Currency Transaction on SBN are set out in Appendix 8.

- 2) The settlement of Foreign Currency Transaction on SBN shall include the settlement of the purchase of SBN by Bank Indonesia and the settlement of the sale of foreign currencies by Bank Indonesia.
- 3) The participants of Foreign Currency Transaction on SBN shall be obligated to provide SBN in a Securities Account for the settlement of the purchase of SBN by Bank Indonesia and rupiah funds in a Demand Deposit Account which are sufficient for

the settlement of the sale of foreign currencies by Bank Indonesia.

- 4) The settlement of the purchase of SBN by Bank Indonesia shall be conducted through the BI-RTGS System and BI-SSSS.
- 5) The settlement of the sale of foreign currencies by Bank Indonesia shall be conducted through a Correspondent Bank, Bank Indonesia and the BI-RTGS System.
- 6) The type and series of SBN in a sufficient amount as referred to in point 3) shall be available in the Securities Account of the participant of Foreign Currency Transaction on SBN and shall have been transferred to the Securities Account of Bank Indonesia by no later than 14.00 Western Indonesia Time of BI-RTGS System time or such other times determined by Bank Indonesia on the settlement date of the Foreign Currency Transaction on SBN.

- 7) Bank Indonesia shall credit to the Demand Deposit Account of the participant of Foreign Currency Transaction on SBN the settlement value of the purchase of SBN by Bank Indonesia after receiving the transfer of all types and series of SBN constituting the obligation of participant.
- 8) Bank Indonesia shall transfer foreign currency into the account of the participant of the Foreign Currency Transaction on SBN with a Correspondent Bank, which is the amount of foreign currency won following the debit from the Demand Deposit Account of the participant of the Foreign Currency Transaction on SBN for the settlement of the sale of foreign currency by Bank Indonesia.
- 9) In the event that the participant of the Foreign Currency Transaction on SBN does not transfer sufficient type and series of SBN to the Securities Account of Bank

Indonesia up to the time limit as referred to in point 6), the Foreign Currency Transaction on SBN shall be declared cancelled.

- 10) In the event that on the settlement date the participant of the Foreign Currency Transaction on SBN does not have sufficient rupiah funds to meet the obligation for the settlement of the sale of foreign currencies by Bank Indonesia, the participant of the Foreign Currency Transaction on SBN shall be obligated to pay the nominal value of the transaction on the next business day.
- 11) For Foreign Currency Transaction on SBN being cancelled due to non-transfer of sufficient type and series of SBN to the Securities Account of Bank Indonesia by the participant of the Foreign Currency Transaction on SBN as referred to in point 9), the participant of the Foreign Currency Transaction on SBN must construct the transfer

from the Securities Account of Bank Indonesia to the Securities Account of the participant for SBN which has been transferred successfully by no later than the cut of warning of BI-SSSS on the settlement date.

- 12) In relation to the cancellation of Foreign Currency Transaction on SBN as referred to in point 9) or in the event that a participant of the Foreign Currency Transaction on SBN cannot fulfill his/her obligations on the settlement date as referred to in point 10), the participant of the Foreign Currency Transaction on SBN shall be subject to sanctions as referred to in Bank Indonesia Regulation on Monetary Operations.

3. Provision of point VI.9.a shall be amended so as to read as follows:

- a. Requirements

Early Redemption may only be conducted on Term Deposits with a minimum tenure of 1 (one) month,

namely 28 (twenty-eight) days at the time of issuance.

4. Provision of Chapter VII shall be supplemented by 1 (one) point, namely point 3 which shall be read as follows:

3. Sanctions for OMO Transactions in the Foreign Currency Market

- a. In the event that an OMO Participant in the Foreign Currency Market fails to fulfill the obligation at the time of settlement, the settlement shall be conducted in the subsequent business day and the OMO Participant shall be subject to sanctions in the form of:

- 1) a written reprimand with copies to:

- a) The relevant Bank Supervision Directorate, in the event of sanctions imposed on Banks having their head offices within the operational area of Bank Indonesia Head Office (KPBI); or

- b) The Supervisory Team for Bank Indonesia Regional Office (KBI), in the event of sanctions imposed on Banks having their head offices within the operational area of KBI; and

2) a financial penalty which shall be calculated based on :

- a) The interest rate of Fed Fund which comes into effect on the transaction settlement date plus 200 (two hundred) basis points, multiplied by the transaction nominal value and multiplied by $1/360$ (one per three hundred and sixty) for the settlement of the payment obligations in US Dollar currency;
- b) the interest rate issued by the central bank or monetary authority in the state of the relevant currency (official rate) which is effective on the transaction settlement date plus 200 (two hundred) basis points, multiplied by the transaction nominal value and multiplied by $1/360$ (one per three hundred and sixty) for the settlement of the payment obligations in foreign currencies other than US Dollar; or

- c) the interest rate pursuant to applicable Bank Indonesia policies (BI Rate) plus 200 (two hundred) basis points, multiplied by the transaction nominal value and multiplied by $1/360$ (one per three hundred and sixty) for the settlement of the payment obligations in rupiah.
- b. The written reprimand as referred to in point a.1) shall be delivered 1 (one) business day after the settlement date.
- c. The financial penalty as referred to in point a.2) shall be imposed by debiting the Demand Deposit Account or the Foreign Currency Account of the OMO Participant with Bank Indonesia 1 (one) business day after the settlement obligation date.

The provisions herein shall come into effect on August 8, 2011.

For public cognizance, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

HENDAR

DIRECTOR OF MONETARY MANAGEMENT